Investment Idea / IPO Note

Paradigm REIT

Prime Retail Opportunity

By Lee Cai Yu

NEUTRAL

IPO Price: RM1.00
Fair Value: RM1.07

Paradigm REIT (PARADIGM, 5338) has a portfolio of retail-based assets located within the robust growing Klang Valley and Johor specifically in Petaling Jaya, Klang and Johor Baru. We projected PARADIGM to register distributable income of RM111.6m and RM121.2m for FY25F and FY26F respectively. We peg a fair value of RM1.07 based on a target yield of 7% over FY26F distribution per unit.

PARADIGM core business revolves in managing and leasing its three key retail assets, all strategically located in high-traffic, mature urban centres with large catchment potential:

(i) Bukit Tinggi Shopping Centre (1.0m sqft GLA) enjoys a 100% occupancy rate and serves as a vibrant community hub in Klang, anchored by AEON. Planned enhancements include the adjacent LRT3 completion, potential gross floor area expansion, collaborations for events in open car park areas, and the installation of rooftop solar panels.

(ii) Paradigm Mall PJ (680k sqft NLA) in the heart of Petaling Jaya, boasts a high occupancy rate of approximately 97.7%. Efforts are underway to refine trade sectors and tenant mix, reconfigure underutilized space, enhance advertising platforms, and engage third-party event organizers to further drive footfall and rental yields.

(iii) Paradigm Mall JB (1.3m sqft NLA), is strategically situated within the Iskandar growth corridor and benefits from cross-border traffic from Singapore. It enjoys a strong 99.3% occupancy rate and features popular attractions such as an indoor roller-skating rink, and the Escape Challenge amusement park. Plans are also in place to convert open areas into additional retail units and advertising platforms to maximize rental potential.

PARADIGM's future growth is supported by its major shareholder in WCT Holdings Berhad (WCTH), which provides access to a robust pipeline of high-quality property development projects. PARADIGM holds a right of first refusal on relevant assets from WCTH and its JV, ensuring a steady stream of potential acquisitions to expand and diversify its portfolio going forward.

Malaysia's retail sector is expected to stay resilient, driven by stable GDP growth, strong private consumption, and tourism recovery, with an 8.3% CAGR in retail sales from 2016 to 2024. PARADIGM's prime locations, diversified tenants, and proactive asset management position it to capitalize on growth opportunities while managing risks like tenant concentration and market saturation.

Based on payout ratio of 99%, we expect PARADIGM to distribute 7.0sen and 7.5sen for FY25 and FY26, translating into yields of 7.0% and 7.4% respectively.

KLCI	1,518.06
YTD FBM KLCI change	-7.48%
YTD FBM SC Index change	-13.82%

Stock Information

Market Cap Upon Listing (RM'm)	1,600.0
Enlarged Share Capital (m)	1,600.0
Shariah Compliant	No

IPO Proceeds (RM'm)

Professional and advisory fees	6.98
Regulatory fees	0.32
Printing, investor relations and other related expenses	0.08
Total	**7.39**

Major Shareholders

WCT Holdings Berhad	`60.7%

Summary Earnings Table

FY Dec (RM'm)	2023A	2024A	2025F	2026F
Revenue	190.2	218.7	233.4	249.7
Net Property Income	116.7	147.2	163.4	174.8
Net Investment Income	117.7	148.2	164.6	176.8
Net profit	68.4	97.7	111.6	121.2
Distributable Income	**70.0**	**99.4**	**111.6**	**121.2**
Consensus	NA	NA	NA	NA
Core EPU (sen)	4.4	6.2	7.0	7.6
EPU growth (%)	21.1	42.0	12.2	8.6
DPU (sen)	4.3	6.1	7.0	7.5
PER (x)	22.9	16.1	14.3	13.2
BV/Share (RM)	-	-	1.06	1.14
ROA (%)	-	-	4.4	4.8
Div. Yield (%)	-	-	7.0	7.5

Sources: Prospectus, Rakuten Trade Research

COMMPANY	Definition
Buy	The stock return is expected to exceed the KLCI benchmark by more than 10% over the next 6-12 months.
Trading Buy	Short-term positive development on the stock that could lead to a re-rating in the share price and translate into an absolute return of 10% over the next 3-6 months. Trading Buy is generally for investors who are willing to take on higher risks.
Take profit	The stock return previously recommended has gained by >10%
Hold	The stock return is expected to be in line with the KLCI benchmark (+/- 5%) over the next 6-12 months.
Sell	The stock return is expected to underperform the KLCI benchmark by more than 10% over the next 6-12 months.
SECTOR	
Overweight	Industry expected to outperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Neutral	Industry expected to perform in-line with the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.
Underweight	Industry expected to underperform the KLCI benchmark, weighted by market capitalization, over the next 6-12 months.

Scoring model:

The in-house scoring model is derived from Rakuten Trade Research valuation matrix based on earnings growth, earnings visibility, business model, valuation, balance sheet, technical analysis, and shareholder value creation. Each parameter is given a specific weighting.

All buy calls are based on the research team's judgement. Investing is risky and trading is at your own risk. We advise investors to:

- read and understand the contents of the disclosure document or any relevant agreement or contract before investing;
- understand the risks involved in relation to the product or service;
- compare and consider the fees, charges and costs involved; and
- make your own risk assessment and seek professional advice, where necessary.

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Published:

Kenny Yee Shen Pin
Head of Research